Daniel P. Berry
1914 Wake Bridge Dr.
Whitsett, NC 27377

March 20, 2009

Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428

Dear NCUA:

This letter is in response to your advance notice of proposed rulemaking and request for comment regarding corporate credit unions. Your document appears to react to individuals within the Credit Union Movement having good intentions which caused additional risk taking which ultimately created unintended negative outcomes. While global economic conditions contributed to the current scenario, the cost/benefit of your recommendations should be evaluated on how they would impact the Credit Union Movement in ordinary times as well as the current extraordinary environment. This response will provide comments in the same order as your document.

1. The Role of Corporates in the Credit Union System

<u>Payment system</u>. The diversification of products/services allows corporates to have multiple sources of income. Even if payment systems could support a profitable business today, there is no guarantee that the same business model would be applicable tomorrow. This recommendation could limit corporates future ability to generate revenues. If corporates and thus their member natural person credit unions desired investment services, these corporates should be scrutinized for the additional risk.

<u>Liquidity.</u> Liquidity, especially short-term liquidity, should still be considered a core service of the corporate system. Regulations, similar to management decisions, impact a variety of items. Limiting corporate's ability to offer products and services such as liquidity needs will have repercussions, potentially good and bad. Corporates need flexibility in order to access liquidity from several sources. A consideration could be to reinstate matching assets and liabilities; keeping in mind that such a regulation would not facilitate instantaneous increase of liquidity requests nor permanent impairment experienced at US Central in December 2008.

<u>Field of Membership.</u> The desire to illustrate capitalism within the corporate system had some unintended consequences. It appears that larger corporates took on more credit risk to increase yields. The corporates that have the lowest (or even negative) NEV appear to be larger in size. As the corporates started competing against each other, the entities which were more aggressive in expanding appear to be the ones with the more significant financial issues today. A regional approach with members of corporates being required to have capital in the corporate should mitigate some of the fundamentals which brought

about the current problems. A problem though would be transitioning to a regional approach. How could you justify that the larger corporates, who accepted the risk which is threatening the share insurance fund today, be the surviving entities? This is similar to paying bonuses to individuals who were responsible for federal bailout funds.

Expanded Investment Authority. Restricting investment authority should reduce credit risk but will also reduced investment income. Such a regulation could create mediocrity of investment income. If investments were eliminated altogether, credit unions would need to rely on external brokers. Since investment professionals should understand the risks better than anyone else, authority based on capital could be a good compromise. As the risk of the portfolio increases, an independent evaluation of those investments would be justified.

Structure. US Central was created to benefit the retail corporates. The benefits/detriments of this two-tiered system would be better posed to retail corporates. However, retail corporates would bare additional expense and reduce investment income (less economies of scale) if US Central was disbanded. A national corporate with regional offices would be another concept. Logistics for accommodating payment systems would need to be resolved in such a vision. Smaller credit unions would bare the most significant cost if the corporate system was disbanded altogether. Smaller entities are able to access a variety of products/services at a corporate and would have the most issues trying to duplicate this mix if the corporate system ceased to exist. In addition, credit unions would need to rely more on the banking industry for products/services if the corporate system was disbanded.

2. Corporate Capital

This section omitted the fact that natural person credit unions own corporates. If regulations restrict corporate capital, natural person credit unions would hold larger investments in corporates and less for discretionary funds for other purposes.

Core Capital. Increase in corporate capital would reduce natural person credit unions flexibility. Corporates do experience significant fluctuations in assets which relates to liquidity being a core service. Significant restrictions on capital could reduce the corporates ability to handle natural person credit union liquidity requests.

Membership capital. Credit unions have consolidated significantly over the past decade. A three year notice to withdrawal capital excessively restricts natural person credit unions. However, this needs to be balanced with corporates' desire to have stable/predictable capital. A one year notice could be a compromise. A restriction to withdrawal membership capital being conditioned on corporate's ability to meet capital requirements would imply that concern about corporate credit unions takes precedence over natural person credit unions. Shouldn't the opposite be the case?

Capital requirements. Your document asks about comparability to other federally regulated financial institutions. The Credit Union Movement has consistently stated that our industry is different. Unless corporates are similar to these other federally regulated entities, the public message could be blurred. The amount of contributed capital should be the decision of natural person credit union boards as opposed to regulations.

3. Permissible Investments

Everyone should concede that US Central and some other corporates incurred (will incur) significant losses. However, restricting future investments won't change the current climate. Should natural person credit unions in Florida and California cease making mortgages because of the losses they are incurring on such loans? The reasonableness of such a proposal would be different for each entity. Some entities manage the risk better than others. Corporates need to have flexibility to manage their own portfolio and be accountable for managing their risks.

4. Credit Risk Management

Investments which are being written off at US Central today were rated AAA at the time of purchase. Unfortunately, this calls into question the risks in portfolios. Regulations such as more stress tests, multiple ratings, will incur additional costs. As expenses increase for corporates, the returns for natural person credit unions would decrease. NCUA should consider such regulations for higher risk investments as opposed to requiring such expense on the entire portfolios. Concentrations should also be based on risks. The question here would be how to define higher risk investments.

5. Asset Liability Management

NCUA is considering credit spread modeling. What was the rationale for eliminating these tests in the past? The cost/benefit evaluation should be considered before reinstating such regulations.

6. Corporate Governance

Changing the board structure of retail corporates impugns the votes of natural person credit unions. In addition, compensation for corporate directors could open a Pandora's box of issues experienced in the private sector. Changing the board structure on a wholesale corporate to allow a natural person credit union perspective is a possibility; however, a change such as this probably would not have changed the decisions over the past several years which resulted in the current financial condition.

In conclusion, the attempt to restructure the corporate system is based on noble intentions. Decisions which led the corporate network to where we are today were also based on the best judgment at the time. The current and anticipated economic environments make the restructuring necessary. Unfortunately, the changes being considered appear to reduce the likelihood of the current predicaments as opposed to future expectations of the industry. Restrictive regulations to the current scenario could compound future problems. We would respectfully request that the "real" impact of any changes be considered before implementing. This would include the anticipation of some credit unions merging as an unforeseen repercussion.

Your advance notice for proposed rulemaking appeared broad in scope. This made responses such as mine difficult to make. Would it be possible to provide another advance notice for proposed rulemaking regarding your ultimate recommendation?

Sincerely,

Daniel Berry